



# **Portage District Library**

## **Financial Statements**

**Year Ended December 31, 2005**

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Portage District Library</b>	County <b>Kalamazoo</b>
Audit Date <b>12/31/05</b>	Opinion Date <b>3/22/06</b>	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

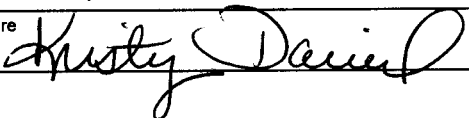
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>BDO Seidman, LLP</b>			
Street Address <b>211 E. Water Street, Suite 300</b>	City <b>Kalamazoo</b>	State <b>MI</b>	ZIP <b>49007</b>
Accountant Signature 		Date <b>5/15/06</b>	

# Portage District Library

## Contents

<b>Library Board</b>	1
<b>Independent Auditors' Report</b>	2
<b>Management Discussion and Analysis</b>	3 - 6
<b>Government-Wide Financial Statements:</b>	
Statement of Net Assets	7
Statement of Activities	8
<b>Fund Financial Statements:</b>	
<i>Governmental Fund:</i>	
Balance Sheet	9
Reconciliation of Fund Balance of Governmental Fund to the Net Assets of Governmental Activities on the Statement of Net Assets	10
Statement of Revenues, Expenditures, and Changes in Fund Balance	11
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund to Statement of Activities	12
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	13
<b>Notes to Financial Statements</b>	14 - 22
<b>Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i></b>	23

# **Portage District Library**

## **Library Board**

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**Laurie DeHaven**  
**Chairperson**

**Karen Vemuri**  
**Vice Chairperson**

**Kathy Peerbolte**

**Babbette Smith**

**Clifford Sacks**

**Stephen Rodia**

**Timothy Wenzel**



## Independent Auditors' Report

Library Board  
Portage District Library  
Portage, Michigan

We have audited the accompanying financial statements of the governmental activities of the Portage District Library (the Library), as of and for the year ended December 31, 2005, which collectively comprise the Library's basic financial statements, as listed in the accompanying table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Library, as of December 31, 2005, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2006, on our consideration of the Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 6 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*BDO Seidman, LLP*

Certified Public Accountants

March 22, 2006

## **MANGEMENT DISCUSSION AND ANALYSIS**

This section of the Portage District Library's (the Library's) annual financial report presents our discussion and analysis of the Library's financial performance during the year ended December 31, 2005. Please read it in conjunction with the Library's financial statements, which immediately follow this section.

### **Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader understands the Library's finances as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole Library, presenting both an aggregate view of the Library's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending.

### ***Reporting the Library as a Whole – Government-wide Financial Statements***

One of the most important questions asked about the Library is, "As a whole, what is the Library's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the Library's financial statements, report information on the Library as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Library's net assets--the difference between assets and liabilities, as reported in the Statement of Net Assets--as one way to measure the Library's financial health or financial position. Over time, increases or decreases in the Library's net assets, as reported in the Statement of Activities, are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Library's operating results. However, the Library's purpose is to provide library services to the residents of the district, not to generate profits as commercial entities.

The Statement of Net Assets and the Statement of Activities report the governmental activities for the Library, which encompass all of the Library's services. Property taxes finance most of these activities.

### ***Reporting the Library's Fund Financial Statements***

The Library's fund financial statements provide detailed information about the operating fund - not the Library as a whole. The Library, similar to other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The governmental fund of the Library uses the following accounting approach:

*Governmental fund* - All of the Library's services are reported in the governmental fund. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances remaining at year-end that are available for spending. They are reported using the accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Library and the services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Library's operations. We describe the differences between governmental activities reported in the Statement of Net Assets and the Statement of Activities and governmental funds in a reconciliation.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (Continued)

### The Library as a Whole

Recall that the Statement of Net Assets provided a perspective of the Library as a whole. The following provides a summary of the Library's net assets as of December 31, 2005.

<u>December 31,</u>	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
<b>Assets:</b>		
Current and other assets	\$ 3,873,889	\$ 3,742,319
Capital assets, net of accumulated depreciation	3,631,865	3,569,705
<b>Total Assets</b>	<b>7,505,754</b>	<b>7,312,024</b>
<b>Liabilities:</b>		
Current liabilities	174,115	105,727
Long-term liabilities	1,948,187	2,063,944
<b>Total Liabilities</b>	<b>2,122,302</b>	<b>2,169,671</b>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	1,821,455	1,629,980
Unrestricted	3,561,997	3,512,373
<b>Total Net Assets</b>	<b>\$ 5,383,452</b>	<b>\$ 5,142,353</b>

The above analysis focuses on the net assets. The change in net assets of the Library's governmental activities is discussed below. The Library's net assets were \$5,383,452 at December 31, 2005. Capital assets, net of related debt totaling \$1,821,455, compares the original cost, less depreciation of the Library's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service becomes due. The remaining amount of net assets of \$3,561,997 was unrestricted.

The \$3,561,997 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The unrestricted net assets balance enables the Library to meet working capital and cash flow requirements as well as to provide for future uncertainty.

The results of this year's operations for the Library as a whole are reported in the Statement of Activities, which shows the changes in net assets for 2005 and 2004.

<u>December 31,</u>	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
<b>Revenue:</b>		
Program revenue:		
Charges for services	\$ 201,967	\$ 200,649
Other operating grants	76,453	74,817
General revenue:		
Property taxes	3,007,601	3,027,081
Interest	52,278	17,985
Other	14,651	14,580
<b>Total Revenue</b>	<b>3,352,950</b>	<b>3,335,112</b>
<b>Function/Program Expenses:</b>		
Recreation and culture	3,009,091	2,787,021
Interest and fiscal charges	102,773	109,239
<b>Total Expenses</b>	<b>3,111,864</b>	<b>2,896,260</b>
<b>Increase in Net Assets</b>	<b>\$ 241,086</b>	<b>\$ 438,852</b>

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **(Continued)**

As reported in the Statement of Activities, the cost of all of the Library's activities this year was \$3,111,864. Certain activities were partially funded from those who benefited from the operations through charges for services of \$201,967 or by other governments and organizations that subsidized certain programs with grants and contributions of \$76,453. We paid for the remaining "public benefit" portion of the Library's activities with tax revenue and other revenues such as interest and state shared revenue totaling \$3,074,530.

The Library experienced an increase in net assets of \$241,086.

As discussed above, the net cost shows the financial burden placed on the state and the Library's taxpayers by each of these functions. Since property taxes constitute the vast majority of the Library's operating revenue sources, the board and management must annually evaluate the needs of the Library and balance those needs with ongoing obligations to citizens and creditors.

#### **The Library's Governmental Fund**

As we noted earlier, the Library uses a fund to help it control and manage money for particular purposes. Looking at the fund helps the reader consider whether the Library is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Library's overall financial health.

As the Library completed this year, the governmental fund reported a fund balance of \$3,545,451, which is an increase of \$78,584 from last year. The primary reason for this increase is the timing of tax collections in relation to the Library's fiscal year. Furthermore, penal fines and interest income were received in excess of planned amounts. Expenditures were less than planned due to several factors. The first, savings were recognized with the utilization of a Health Reimbursement Account (HRA) arrangement for medical costs, which related to a savings of planned expenditures for benefits. Secondly, several projects were completed under budget due to savings on material and labor cost. Furthermore, utility cost increases did not materialize to the extent believed and expenditures were less than planned.

#### **General Fund Budgetary Highlights**

Over the course of the year, the Library revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Library's original and final budget amounts compared to amounts actually paid and received is provided in the basic financial statements.

Budgeted revenues were increased by \$45,058, primarily due to donations received in excess of planned amounts.

Budgeted expenditures were increased by \$518,792, due to several factors. These factors included prior year encumbrances, the allocation of the Building Re-carpeting Reserve for replacement of carpet throughout the Library and the allocation of the Technology Reserve for installation of wireless technologies throughout the Library and upgrades to the Library's databases with federated searching capabilities.

Total actual revenues exceeded the final budget by \$176,403. This variance was due to a higher than anticipated collection of property taxes, penal fines, donation revenue, and interest income during the year.



## MANAGEMENT DISCUSSION AND ANALYSIS (Concluded)

Actual amounts of expenditures reported for recreation and culture were approximately \$352,103 under our final amended budget. This variance was due to encumbrances as of year-end, savings associated with the re-carpeting, and technology projects. Additionally, there were small savings in all areas associated with efficient purchasing of materials and services.

### **Capital Assets and Debt Administration**

#### ***Capital Assets***

As of December 31, 2005, the Library had \$3,631,865 invested in capital lease assets and capital assets, including land, land improvements, building, building improvements, equipment, and furniture and fixtures. This amount represents a net increase (including additions, disposals, and depreciation) of \$62,160 or 1.75% from last year.

<i>December 31,</i>	<i>2005</i>	<i>2004</i>
Land	\$ 30,000	\$ 30,000
Capital lease assets	4,403,994	4,287,799
Capital assets	1,425,220	1,627,917
	5,859,214	5,945,716
Less accumulated depreciation	2,227,349	2,376,011
<b>Net Capital Assets</b>	<b>\$ 3,631,865</b>	<b>\$3,569,705</b>

This year's additions of \$297,396 include carpeting, resurfacing of the parking lot, artwork, and various equipment. Additional information on the Library's capital assets can be found in Note 5 on page 20 of this report.

#### ***Debt***

At the end of this year, the Library had \$1,810,410 in bonds outstanding versus \$1,939,725 in the previous year (a decrease of 7%). Additional information on the Library's debt can be found in Note 6 on page 21 of this report.

### **Economic Factors and Next Year's Budgets and Rates**

Our board and management consider many factors when setting the Library's 2006 budget. One of the most important factors affecting the budget is the estimated amount of property tax revenue. The 2006 budget was adopted in August, 2005, based on property taxes levied in December, 2005. Approximately 90% of total General Fund revenue is from property taxes. Under state law, the Library cannot assess additional property tax revenue for general operations. As a result, the Library funding is heavily dependent on the collection of property taxes.

### **Contacting the Library's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Library's finances and to demonstrate the Library's accountability for the funds received. If you have questions about this report or need additional information, contact the Business Office, Portage District Library, 300 Library Lane, Portage, Michigan 49002.

# Portage District Library

## Government-Wide Financial Statements Statement of Net Assets

<i>December 31, 2005</i>	<i>Governmental Activities</i>
<b>Assets</b>	
<b>Current Assets:</b>	
Investments (Note 4)	\$ 1,623,154
Receivables - Property taxes	2,248,999
Prepaid expenses	1,443
Beneficial interest (Note 8)	293
Capital assets, net of accumulated depreciation (Note 5)	3,631,865
<b>Total Assets</b>	<b>\$ 7,505,754</b>
<b>Liabilities and Net Assets</b>	
<b>Current Liabilities:</b>	
Checks issued against future deposits (Note 4)	\$ 9,032
Accounts payable - Trade	118,702
Accrued wages	46,381
<b>Noncurrent liabilities (Note 6):</b>	
Due within one year	159,315
Due in more than one year	1,788,872
<b>Total Liabilities</b>	<b>2,122,302</b>
<b>Net Assets:</b>	
Invested in capital assets, net of related debt	1,821,455
Unrestricted	3,561,997
<b>Total Net Assets</b>	<b>5,383,452</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 7,505,754</b>

*See accompanying notes to financial statements.*

# Portage District Library

## Government-Wide Financial Statements Statement of Activities

<i>Year ended December 31, 2005</i>	<i>Expenses</i>	<i>Program Revenues</i>		<i>Governmental Activities</i>
		<i>Charges for Services</i>	<i>Operating Grants and Contributions</i>	<i>Net (Expense) Revenue and Changes in Net Assets</i>
<b>Function/Program -</b>				
Governmental activities:				
Recreation and culture	\$3,009,091	\$ 201,967	\$ 76,453	\$ (2,730,671)
Interest and fiscal charges	102,773	-	-	(102,773)
<b>Total Governmental Activities</b>	<b>\$3,111,864</b>	<b>\$ 201,967</b>	<b>\$ 76,453</b>	<b>(2,833,444)</b>
<b>General Revenues:</b>				
Property taxes				3,007,601
Interest				52,278
Other				14,651
<b>Total General Revenues</b>				<b>3,074,530</b>
<b>Change in Net Assets</b>				<b>241,086</b>
<b>Change in Assets Held by the Kalamazoo Community Foundation</b>				<b>13</b>
<b>Net Assets, beginning of year</b>				<b>5,142,353</b>
<b>Net Assets, end of year</b>				<b>\$ 5,383,452</b>

*See accompanying notes to financial statements.*

# Portage District Library

## Governmental Fund Balance Sheet

**December 31, 2005**

**General**

**Assets:**

Investments (Note 4)	\$ 1,623,154
Receivables - Property taxes	2,094,676
Prepaid expenses	1,443
Beneficial interest (Note 8)	293

<b>Total Assets</b>	<b>\$ 3,719,566</b>
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**Liabilities and Fund Balance**

**Liabilities:**

Checks issued against future deposits (Note 4)	\$ 9,032
Accounts payable - Trade	118,702
Accrued wages payable	46,381

<b>Total Liabilities</b>	<b>174,115</b>
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**Fund Balance:**

Reserved:	
Encumbrances	159,701
Endowment	262
Unreserved:	
Designated:	
Building reserve	50,000
General reserve	435,073
Undesignated	2,900,415

<b>Total Fund Balance</b>	<b>3,545,451</b>
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<b>Total Liabilities and Fund Balance</b>	<b>\$ 3,719,566</b>
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*See accompanying notes to financial statements.*

# Portage District Library

## Governmental Fund Reconciliation of Fund Balance of Governmental Fund to the Net Assets of Governmental Activities on Statement of Net Assets

December 31, 2005

Fund balance - Governmental Fund (from page 9) \$ 3,545,451

Amounts reported for governmental activities in the Statement of Net Assets  
are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported in the fund. These assets consist of:

Capital assets, at cost	5,859,214
Accumulated depreciation	<u>2,227,349</u>

Net capital assets 3,631,865

Other long-term assets are not available to pay for current period  
expenditures and therefore are deferred in the fund. These assets  
consist of -

Property taxes receivable	154,323
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Long-term liabilities, including bonds payable, are not due and payable in the  
current period and therefore are not reported in the fund. Balances are as  
follows:

Bonds payable	(1,810,410)
Compensated absences	<u>(137,777)</u>

**Net Assets of Governmental Activities \$ 5,383,452**

*See accompanying notes to financial statements.*

# Portage District Library

## Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance

<b>Year ended December 31, 2005</b>		<b>General</b>
<b>Revenues:</b>		
Taxes		\$ 3,023,002
State aid		43,165
Other		302,185
<b>Total Revenues</b>		<b>3,368,352</b>
<b>Expenditures:</b>		
Current -		
Recreation and culture		2,839,108
Debt service:		
Principal payments		129,315
Interest and other		102,773
Capital outlay		218,585
<b>Total Expenditures</b>		<b>3,289,781</b>
<b>Increase in Fund Balance</b>		<b>78,571</b>
<b>Change in Assets Held by the Kalamazoo Community Foundation</b>		<b>13</b>
<b>Fund Balance, beginning of year</b>		<b>3,466,867</b>
<b>Fund Balance, end of year</b>		<b>\$ 3,545,451</b>

*See accompanying notes to financial statements.*

# Portage District Library

## Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund to Statement of Activities

*Year ended December 31, 2005*

Net change in fund balance - Governmental Fund (from page 11) \$ 78,584

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation expense:

Capital outlay	297,396	
Depreciation expense	(233,837)	
Loss on disposal of fixed assets	(1,399)	62,160

Revenue in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund -

Property taxes receivable	(15,401)
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Repayment of expenses such as bond and note principal and compensated absences are an expenditure in the governmental fund, but not in the Statement of Activities.

115,756

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<b>Change in Net Assets of Governmental Activities</b>	<b>\$ 241,099</b>
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*See accompanying notes to financial statements.*

# Portage District Library

## General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

<i>Year ended December 31, 2005</i>	<i>Original Budget</i>	<i>Final Budget</i>	<i>Actual</i>	<i>Variance with Final Budget Positive (Negative)</i>
<b>Revenues:</b>				
Taxes	\$ 2,912,455	\$ 2,912,455	\$ 3,023,002	\$ 110,547
State Aid	42,686	42,686	43,165	479
Other	191,750	236,808	302,185	65,377
<b>Total Revenues</b>	<b>3,146,891</b>	<b>3,191,949</b>	<b>3,368,352</b>	<b>176,403</b>
<b>Expenditures:</b>				
Recreation and culture:				
Salaries and wages	1,115,722	1,115,722	1,114,291	1,431
Fringe benefits	465,140	465,140	443,215	21,925
Library materials	411,166	460,894	402,432	58,462
Capital outlay	122,900	282,261	218,585	63,676
Professional services	211,790	242,586	183,453	59,133
Building maintenance	150,026	375,125	336,392	38,733
Supplies	115,510	122,452	100,985	21,467
Utilities	110,500	110,898	91,734	19,164
Other charges	188,250	234,718	166,606	68,112
<b>Total recreation and culture</b>	<b>2,891,004</b>	<b>3,409,796</b>	<b>3,057,693</b>	<b>352,103</b>
Debt service:				
Principal payments	129,315	129,315	129,315	-
Interest and other	102,773	102,773	102,773	-
<b>Total debt service</b>	<b>232,088</b>	<b>232,088</b>	<b>232,088</b>	<b>-</b>
<b>Total Expenditures</b>	<b>3,123,092</b>	<b>3,641,884</b>	<b>3,289,781</b>	<b>352,103</b>
<b>Increase (Decrease) in Fund Balance</b>	<b>23,799</b>	<b>(449,935)</b>	<b>78,571</b>	<b>528,506</b>
<b>Change in Assets Held by the Kalamazoo Community Foundation</b>	<b>-</b>	<b>-</b>	<b>13</b>	<b>13</b>
<b>Fund Balance, beginning of year</b>	<b>3,466,867</b>	<b>3,466,867</b>	<b>3,466,867</b>	<b>-</b>
<b>Fund Balance, end of year</b>	<b>\$ 3,490,666</b>	<b>\$ 3,016,932</b>	<b>\$ 3,545,451</b>	<b>\$ 528,519</b>

See accompanying notes to financial statements.



# Portage District Library

## Notes to Financial Statements

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### 1. Description of the Portage District Library

Effective March 22, 1998, the Portage District Library (the Library) was established pursuant to Act No. 24 of the Public Acts of 1989. Its purpose is to provide library services to the residents of the district. The Library may also enter into contracts to provide library services to municipalities outside the district. The Library is governed by a Library Board consisting of seven members who are elected by the citizens according to geographic regions.

### 2. Summary of Significant Accounting Policies

The financial statements of the Library have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Library's significant accounting policies are described below.

#### Reporting Entity

The Library is an independent entity with an elected board of directors. The board consists of seven members elected to four-year terms. The board has responsibility and control over all matters affecting the Library, including authority to determine its budget, the power to designate management and primary accountability for fiscal matters. The financial statements of the Library contain all activity for which the Library is financially accountable.

#### Basis of Presentation

*Government-wide financial statements:* The Statement of Net Assets and the Statement of Activities report information on all of the activities of the Library. The government-wide financial statements categorize activities as either governmental or business-type. All of the Library's activities are classified as governmental.

The Statement of Activities demonstrates the degree to which the direct expenses related to a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to recipients who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function. Property taxes and other items not included among program revenues are reported as general revenues.

*Fund financial statements* - The fund financial statements provide information about the Library's governmental fund.

# Portage District Library

## Notes to Financial Statements (Continued)

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The governmental fund is used to account for the Library's general activity. The focus is on determination of the financial position and changes in financial position rather than on income determination. The following is a description of the governmental fund of the Library.

*General Fund* - The General Fund is the general operating fund of the Library. It is used to account for all financial resources.

### **Measurement Focus and Basis of Accounting**

**Government-wide Financial Statements** - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Fund Financial Statements** - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available if they are collected within the current period or soon enough after to pay liabilities for the current period. The Library considers revenues available if collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences, are recorded only when payment is due.

### **Budgets and Budgetary Accounting**

Budgets presented in the financial statements were prepared on the same basis as the accounting basis used to reflect actual results. The General Fund is subject to legal budgetary accounting controls and is budgeted annually. The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to May 31, department coordinators submit a prioritized expenditure budget report for the fiscal year commencing the following January 1.
- During June and July, the director and business manager develop an operating budget based upon the proposed expenditures and projected revenues for submission to the Library Board in July.
- Library Board work sessions are held in August.
- Public hearings are conducted by the Library Board during the September Library Board meeting and the final budget is adopted in September.

# Portage District Library

## Notes to Financial Statements (Continued)

- Formal budgetary integration is employed as a management control device during the year for the General Fund.
- The budget is adopted on a modified accrual basis consistent with accounting principles generally accepted in the United States of America.
- Budgeted amounts are as originally adopted or as amended by the Library Board during the calendar year. Individual amendments were not material in relation to the original appropriations and were made as permitted by law.

### Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental fund. Encumbrances outstanding at year-end are reported as reservations of fund balance since they do not constitute expenditures or liabilities.

### Assets, Liabilities, and Net Assets

**Cash and Investments** - Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less. Investments are stated at fair value.

**Capital Assets** - Capital assets, which include property, building, and equipment, are reported in the government-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$3,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated fixed assets are recorded at their fair value on the date donated.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets useful lives are not capitalized. Major outlays for capital assets are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets are included as part of the capitalized value.

Depreciation is provided for on the straight-line basis over the estimated useful lives of the assets as follows:

Building and additions	10 - 40 Years
Equipment	5 - 10 Years
Furniture and fixtures	5 - 10 Years

**Long-Term Obligations** - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities.

# Portage District Library

## Notes to Financial Statements (Continued)

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In the fund financial statements, governmental fund types recognize bond premiums and discounts as well as issuance costs during the current period. The face amount of debt is reported as other financing sources. Premiums and discounts are reported as other financing sources (uses) while issuance costs are reported as expenditures.

**Compensated Absences** – Library employees are granted vacation and sick leave in varying amounts based on length of service. Sick leave is 50% vested for employees with 10 or more years of service. Effective January 1, 2001, employees were given the option to participate in a short-term disability plan; therefore, new employees are not eligible to accrue sick hours, only the employees which were vested have the option to continue to accrue sick hours. All vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**Net Assets** - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition or construction of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through legislation or through external restrictions imposed by creditors, grantors, laws, or regulations from other governments.

**Property Taxes** - Property taxes are levied on December 1 at all local units at which time the taxes attach as an enforceable lien on the property. The taxes are due February 28 of each year. The Library's portion of the 2005 taxes are collected by the local units and remitted to the Library when it is received. The Library's portion of the 2005 property tax levy, which was based on the rate of 1.49 mills, applied to a total taxable value of real and personal property located in the Library district of \$1,938,521,860 is subject to change due to review and tax tribunal decisions.

**Use of Estimates** - The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

### 3. Stewardship, Compliance, and Accountability

**Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund. All annual appropriations lapse at year-end.

The budget document presents information by function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Library to have its budget in place by January 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits the Library to amend their budget during the year. Expenditures did not exceed budgeted appropriations.

# Portage District Library

## Notes to Financial Statements (Continued)

### 4. Deposits and Investments

#### *Deposits*

State statutes require that certificates of deposit, savings accounts, deposit accounts, and depository receipts are made with banks doing and having a place of business in the state of Michigan that are also insured by an agency of the United States.

The Library's investment policy complies with the State statutes and has no additional limitations on deposits.

#### *Custodial Credit Risk - Deposits*

Custodial credit risk is the risk that, in the event of bank failure, the Library's deposits might not be recovered. The Library does not have a policy for custodial credit risk over deposits. At December 31, 2005, none of the Library's bank balances of \$37,709 were exposed to custodial credit risk.

#### *Investments*

State statutes authorize the Library to invest surplus funds in obligations or repurchase agreements of the United States or an agency of the United States, commercial paper, banker's acceptances of the United States banks, obligations of the state of Michigan or any of its political subdivisions, and mutual funds composed entirely of the above investments.

The Library's investment policy complies with the State statutes and has no additional investment policies that would limit its investment choices.

As of December 31, 2005, the Library had the following investments and maturities:

<i>Investment Type</i>	<i>Fair Value</i>	<i>Investment Maturities Less than One Year</i>
Institutional Trust Account	\$ 1,623,154	\$ 1,623,154

The Institutional Trust Account is a mutual fund comprised of United States Treasury Securities. These accounts are highly liquid and the Library receives daily interest, compounded monthly, on the principal in these accounts.

# Portage District Library

## Notes to Financial Statements (Continued)

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### ***Interest Rate Risk - Investments***

Under State statutes, investment in commercial paper is limited to maturities of not more than 270 days after the date of purchase. The Library's investment policy complies with the State guidelines and seeks to minimize interest rate risk by investing primarily in short-term securities, liquid assets, money market funds or similar investment pools and limiting average maturities. The policy does not place specific limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Because the Institutional Trust Account has a weighted average maturity of approximately 30 days as of December 31, 2005, it is presented as an investment with maturity of less than one year.

### ***Custodial Credit Risk - Investments***

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Library will not be able to recover the value of its investments that are in the possession of an outside party. The Library requires securities held by a third party custodian to be evidenced by safekeeping receipts. The Library does not have any additional policies for custodial credit risk over investments.

### ***Credit Risk - Investments***

State statutes limits investments in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services. Investments in obligations of the State of Michigan or its political subdivisions must be rated as investment grade by not less than one rating service. Investments in bonds, obligations, or repurchase agreements must be made with the U.S. Treasury and bankers acceptances with U.S. banks. Mutual Funds must be comprised of the above investments.

The Library's investment policy limits investments to be made with prudent judgment as to the safety of the invested capital and probable outcome of income.

At December 31, 2005, the Institutional Trust Account has a rating of AAA by Standard & Poor's.

### ***Concentration of Credit Risk***

The Library places no limit on the amount the Library may invest in any one issuer.

At December 31, 2005, the Library had 100% of its total investments held in the Institutional Trust Account. The Library has all deposits and investments in accounts with one financial institution or affiliates of that financial institution.

# Portage District Library

## Notes to Financial Statements (Continued)

### 5. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

	<i>Balance January 1, 2005</i>	<i>Additions</i>	<i>Disposals</i>	<i>Balance December 31, 2005</i>
<b>Capital Lease Assets Not Depreciated -</b>				
Land	\$ 30,000	\$ -	\$ -	\$ 30,000
<b>Capital Lease Assets Depreciated:</b>				
Building	4,147,614	-	(100,000)	4,047,614
Building improvements	74,112	196,794	-	270,906
Land improvements	66,073	19,401	-	85,474
<b>Total Capital Lease Assets at Historical Cost</b>	<b>4,317,799</b>	<b>216,195</b>	<b>(100,000)</b>	<b>4,433,994</b>
<b>Capital Assets Depreciated:</b>				
Equipment	838,505	62,594	(231,354)	669,745
Building improvements	345,364	-	-	345,364
Furniture and fixtures	432,828	18,607	(52,544)	398,891
Land improvements	11,220	-	-	11,220
<b>Total Capital Lease Assets and Capital Assets at Historical Cost</b>	<b>5,945,716</b>	<b>297,396</b>	<b>(383,898)</b>	<b>5,859,214</b>
<b>Less accumulated depreciation:</b>				
Building	1,209,979	111,816	(100,000)	1,221,795
Land and building improvements	75,919	35,093	-	111,012
Equipment	711,442	64,322	(229,955)	545,809
Furniture and fixtures	378,671	22,606	(52,544)	348,733
<b>Total accumulated depreciation</b>	<b>2,376,011</b>	<b>233,837</b>	<b>(382,499)</b>	<b>2,227,349</b>
<b>Net Capital Lease Assets and Capital Assets</b>	<b>\$ 3,569,705</b>	<b>\$ 63,559</b>	<b>\$ (1,399)</b>	<b>\$ 3,631,865</b>

Depreciation expense was charged to governmental functions as follows -

Recreation and culture	\$ 233,837
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# Portage District Library

## Notes to Financial Statements (Continued)

### 6. Long-Term Obligations

Changes in long-term liabilities were as follows:

<i>Primary Government</i>	<i>Beginning Balance January 1, 2005</i>	<i>Additions</i>	<i>Reductions</i>	<i>Ending Balance December 31, 2005</i>	<i>Due Within One Year</i>
<b>Governmental Activities:</b>					
Bonds payable -					
General obligation debt	\$ 1,939,725	\$ -	\$ (129,315)	\$ 1,810,410	\$ 129,315
Other liabilities -					
Compensated absences	124,219	13,558	-	137,777	30,000
<b>Total Long-Term Liabilities -</b>					
<b>Governmental Activities</b>	<b>\$ 2,063,944</b>	<b>\$ 13,558</b>	<b>\$ (129,315)</b>	<b>\$ 1,948,187</b>	<b>\$ 159,315</b>

Long-term debt consists of building authority bonds used for renovation of the Library. The bonds were issued while the Library was still part of the City of Portage. Therefore, the bonds are in the City of Portage's name. The Library makes annual principal payments and semi-annual interest payments directly to the City of Portage for the Library's portion of the debt. There are no liens against the Library due to the bonds being in the City of Portage's name.

The bonds were originally issued for \$3,300,000, of which 86.21% is the Library's portion, or \$2,844,930. The bonds are dated June 1, 1995, with annual payments of \$129,315 to \$258,530 through July 1, 2015, and interest at 4.30% to 5.60%.

The annual requirements to pay principal and interest on long-term bonds outstanding for the Library are as follows:

<i>Year ending December 31,</i>	<i>Governmental Activities</i>		<i>Total</i>
	<i>Principal</i>	<i>Interest</i>	
2006	\$ 129,315	\$ 99,508	\$ 228,823
2007	172,420	92,848	265,268
2008	172,420	83,710	256,130
2009	172,420	74,485	246,905
2010	172,420	65,089	237,509
2011-2015	991,415	178,627	1,170,042
	<b>\$ 1,810,410</b>	<b>\$ 594,267</b>	<b>\$ 2,404,677</b>



# Portage District Library

## Notes to Financial Statements (Concluded)

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### 7. Retirement Plan

#### Plan Description

The Portage District Library contributes to a Money Purchase Plan and Trust for all full-time employees. Plan participants are not required to contribute, but may contribute if they choose to do so. Plan provision and contribution requirements are established and may be amended by the Library Board. The Library is required to contribute 10% of annual covered payroll. During the year ended December 31, 2005, the Library contributed approximately \$93,000 to the plan.

### 8. Beneficial Interest

The Statement of Financial Accounting Standards No. 136, *Transfers of Assets to a Not-for Profit Organization or Charitable Trust that Raises or Holds Contributions for Others* (SFAS 136), established standards for transactions in which a community foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both to another entity that is specified by the donor. SFAS 136 specifically requires if a not-for-profit organization establishes a fund at a community foundation with its own funds and is specified as the beneficiary of that fund, the organization must account for the transfer of such assets as a beneficial interest in funds held by the community foundation. The community foundation refers to such funds as agency fund endowments.

The Library previously transferred funds to the Kalamazoo Community Foundation to be held in endowment. The Kalamazoo Community Foundation maintains variance powers and legal ownership over a portion of the Library's endowment funds and as such, continues to report those funds as assets of the Kalamazoo Community Foundation. This balance was \$27,700 at December 31, 2005. In accordance with SFAS 136, the Portage District Library has recorded an asset for the beneficial interest in funds held by the Kalamazoo Community Foundation of \$293.

### 9. Health Reimbursement Act

The Library has established a Health Reimbursement Arrangement for its employees for the purpose of reimbursing eligible employees of the Library for the cost of certain eligible medical expenses.

### 10. Risk Management and Benefits

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees and natural disasters. In order to minimize its exposure to these risks, the Library purchases commercial insurance coverage. Employee health insurance is also provided by private insurance carriers. There have been no settlements in excess of the Library's insurance coverage.



## **Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards**

Library Board  
Portage District Library  
Portage, Michigan

We have audited the accompanying financial statements of the governmental activities of the Portage District Library (the Library), as of and for the year ended December 31, 2005, which collectively comprise the Library's basic financial statements and have issued our report thereon dated March 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Library's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board and management and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

March 22, 2006



**BDO Seidman, LLP**  
Accountants and Consultants

211 East Water Street  
Kalamazoo, Michigan 49007-4758  
Telephone: (269) 382-0170  
Fax: (269) 345-1666

## MEMORANDUM

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**To:** Christine Berro, Director  
Robert Foti, Business Manager

**Date:** April 21, 2006

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**Re:** Portage District Library  
(the Library)

**From:** BDO Seidman, LLP

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During the course of our audit of the Library's financial statements for the year ended December 31, 2005, we observed the Library's significant accounting policies and procedures, and certain business, financial, and administrative practices.

As a result of our observations and testing, we noted the following issues:

### **Periodic Change of Passwords**

Access to the system software, including applications, is gained by entering valid user identifications and passwords to the system; however, passwords are not changed on a frequent basis. Without changing passwords, the possibility exists that unauthorized persons could more easily obtain unchanged passwords and access the system. This could result in unauthorized data or erroneous transactions entering the system.

#### ***Recommendation***

We recommend passwords be changed on a periodic basis (e.g., every 60 days). Changing passwords on a periodic basis would strengthen the overall EDP security.

### **Check Signing Authority**

The Library's current procedures allow the business manager to sign checks in the absence of the Library director.

#### ***Recommendation***

We recommend the business manager not have check signing authority. This will improve the segregation of duties and will improve the control of the Library's assets.

The following new pronouncements have been issued:

### ***Governmental Accounting Standards Board (GASB) Statement No. 46***

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, clarifies the "legally enforceable" means an external party can compel government to use resources. If this relationship exists, then the entity must disclose such restrictions.

The Library should consider the effect Statement No. 46 will have on its basic financial statements. This new standard will be effective for the Library for the year ending December 31, 2006.

***GASB Statement No. 47***

GASB Statement No. 47, *Accounting for Termination Benefits (Early Retirement Incentives)*, under accrual basis accounting, requires recognition of the cost of benefits when the offer is accepted for voluntary termination and for involuntary termination, when the plan is approved and communicated to employees. Modified accrual accounting requires recognition when the expenditures are normally expected to be liquidated with available expendable resources.

The Library should consider the effect Statement No. 47 will have on its basic financial statements. The requirements of this statement are effective in two parts. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this statement should be implemented simultaneously with the requirements of Statement No. 45. For all other termination benefits, this new statement will be effective for the Library for the year ending December 31, 2006.

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We appreciate the cooperation received from your staff during the audit. Should you desire further information on the above issues, please feel free to contact us.